

Township of Clay

**Financial Report
with Supplemental Information
June 30, 2008**

Township of Clay

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Independent Auditor's Report

To the Members of the Township Board
Township of Clay
St. Clair County, Michigan

Dear Board Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township of Clay as of and for the year ended June 30, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Clay's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township of Clay as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Members of the Township Board
Township of Clay

The accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements, but is presented for the purpose of additional analysis. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Township of Clay. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 13 to the financial statements, there is significant uncertainty related to the estimation of the Water Fund restricted assets for equipment replacement.

Plante & Moreau, PLLC

October 15, 2008

Township of Clay

Management's Discussion and Analysis

Our discussion and analysis of the Township of Clay, Michigan's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2008:

- Governmental activities include approximately \$300,000 of capital additions in the current year, including vehicles and roofing improvements.
- The Township continued to advance fund a portion of its postretirement healthcare obligation by contributing a combined total of \$154,444 to a Municipal Employees' Retirement System (MERS) account from the General, Police, and Water Funds. The current year funding, plus prior funding of \$209,400, resulted in a total investment at MERS of \$363,844. This investment, plus investments held in the Trust Fund - Employee Health Care Fund in the amount of \$400,013, provides a total of \$763,857 set aside to fund future postemployment healthcare costs.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

Township of Clay

Management's Discussion and Analysis (Continued)

Governmental Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior two years:

	Two Years Ago	Prior Year	Current Year	Change from Prior Year	
				in Dollars	as a Percent
Assets					
Capital assets	\$ 4,431,325	\$ 5,527,572	\$ 5,371,872	\$ (155,700)	(2.8)
Other assets	<u>4,604,886</u>	<u>4,755,069</u>	<u>5,434,388</u>	<u>679,319</u>	14.3
Total assets	9,036,211	10,282,641	10,806,260	523,619	5.1
Liabilities					
Long-term liabilities	1,407,366	1,707,537	1,617,925	(89,612)	(5.2)
Other liabilities	<u>552,916</u>	<u>513,123</u>	<u>455,051</u>	<u>(58,072)</u>	(11.3)
Total liabilities	<u>1,960,282</u>	<u>2,220,660</u>	<u>2,072,976</u>	<u>(147,684)</u>	(6.7)
Net Assets					
Invested in capital assets -					
Net of related debt	2,767,565	3,613,970	3,516,250	(97,720)	(2.7)
Restricted	527,154	948,742	1,634,594	685,852	72.3
Unrestricted	<u>3,781,210</u>	<u>3,499,269</u>	<u>3,582,440</u>	<u>83,171</u>	2.4
Total net assets	<u>\$ 7,075,929</u>	<u>\$ 8,061,981</u>	<u>\$ 8,733,284</u>	<u>\$ 671,303</u>	8.3

Township of Clay

Management's Discussion and Analysis (Continued)

				Change from	
	Two Years			Prior Year	
	Ago	Prior Year	Current Year	in	as a
				Dollars	Percent
Revenue					
General revenue:					
Property taxes	\$ 2,786,549	\$ 2,913,670	\$ 2,976,152	\$ 62,482	2.1
State-shared revenue	674,147	663,214	677,047	13,833	2.1
Investment earnings	173,932	202,970	205,340	2,370	1.2
Franchise fees	44,769	56,074	60,676	4,602	8.2
Other miscellaneous revenue	30,573	10,856	7,817	(3,039)	(28.0)
Program revenue:					
Charges for services	739,367	777,453	893,780	116,327	15.0
Operating grants and contributions	355,968	205,998	129,363	(76,635)	(37.2)
Capital grants and contributions	152,670	620,328	147,478	(472,850)	(76.2)
Total revenue	4,957,975	5,450,563	5,097,653	(352,910)	(6.5)
Program Expenses					
General government	984,464	962,184	1,063,392	101,208	10.5
Public safety	2,722,948	2,500,297	2,260,531	(239,766)	(9.6)
Public works	704,940	756,863	932,898	176,035	23.3
Community development	254,503	99,332	36,643	(62,689)	(63.1)
Recreation	64,250	50,000	50,000	-	-
Interest on long-term debt	86,169	95,835	82,886	(12,949)	(13.5)
Total program expenses	4,817,274	4,464,511	4,426,350	(38,161)	(0.9)
Excess of Revenue					
Over Expenses	140,701	986,052	671,303	(314,749)	(31.9)
Transfers	-	-	-	-	-
Change in Net Assets	\$ 140,701	\$ 986,052	\$ 671,303	\$ (314,749)	(31.9)

A review of the governmental activities shows an increase of approximately \$671,000 in net assets, or 8.3 percent, during fiscal year 2008. The unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) at June 30, 2008 increased approximately \$83,000 from the prior year. This increase in unrestricted net assets is primarily the result of changes in net assets invested in capital net of related debt and a reduction in total recurring expenditures from the prior year, due to continued focus on reducing costs by the board.

Property tax revenues, the single largest revenue for the Township, remained strong. A total of \$2.9 million was generated this year, of which the police and fire special assessment millages generated \$2.5 million. Charges for services, primarily inspection fees, generated \$.9 million in 2008. Grant revenue declined from the previous year due to the receipt of one-time only public safety grants in 2007.

Township of Clay

Management's Discussion and Analysis (Continued)

Business-type Activities

The Township has two business-type activities, the water and sewer operations. The operations consist of the following: Water is provided to the Township residents via the City of Algonac and sewage treatment is provided by contracts with St. Clair County Department of Public Works. The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior two years:

	Two Years Ago	Prior Year	Current Year	Change from Prior Year	
				in Dollars	as a Percent
Assets					
Capital assets	\$ 17,830,276	\$ 17,246,380	\$ 16,673,674	\$ (572,706)	(3.3)
Other noncurrent assets	8,492,365	8,155,879	7,847,179	(308,700)	(3.8)
Current assets	<u>1,762,624</u>	<u>1,189,446</u>	<u>1,090,388</u>	<u>(99,058)</u>	<u>(8.3)</u>
Total assets	28,085,265	26,591,705	25,611,241	(980,464)	(3.7)
Liabilities					
Long-term liabilities	10,348,814	9,569,307	8,793,216	(776,091)	(8.1)
Other liabilities	<u>1,028,981</u>	<u>989,876</u>	<u>1,005,793</u>	<u>15,917</u>	<u>1.6</u>
Total liabilities	<u>11,377,795</u>	<u>10,559,183</u>	<u>9,799,009</u>	<u>(760,174)</u>	<u>(7.2)</u>
Net Assets					
Invested in capital assets -					
Net of related debt	10,557,712	10,428,323	10,486,083	57,760	0.6
Restricted	1,981,609	2,092,407	2,045,329	(47,078)	(2.2)
Unrestricted	<u>4,168,149</u>	<u>3,511,792</u>	<u>3,280,820</u>	<u>(230,972)</u>	<u>(6.6)</u>
Total net assets	<u>\$ 16,707,470</u>	<u>\$ 16,032,522</u>	<u>\$ 15,812,232</u>	<u>\$ (220,290)</u>	<u>(1.4)</u>

Township of Clay

Management's Discussion and Analysis (Continued)

	Two Years Ago	Prior Year	Current Year	Change from Prior Year	
				in Dollars	as a Percent
Charges for services	\$ 1,402,929	\$ 1,334,370	\$ 1,600,674	\$ 266,304	20.0
Operating expenses other than depreciation	1,464,435	1,343,206	1,375,829	32,623	2.4
Depreciation and amortization	728,441	741,065	742,303	1,238	0.2
Operating Loss	(789,947)	(749,901)	(517,458)	232,443	(31.0)
Interest income	287,672	258,481	284,327	25,846	10.0
Interest expense	(435,332)	(399,650)	(380,528)	19,122	(4.8)
Other expenses	-	-	-	-	-
Debt service charges	165,285	183,322	361,719	178,397	97.3
Capital contributions	338,600	32,800	31,650	(1,150)	(3.5)
Change in Net Assets	\$ (433,722)	\$ (674,948)	\$ (220,290)	\$ 454,658	(67.4)

The business-type activities experienced a 1.4 percent decrease in total net assets. This was due to operating costs continuing to exceed operating revenue. The Township limited this loss by increasing water usage rates and debt service charges during 2008.

The Township's Funds

Our analysis of the Township's major funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major governmental funds for 2008 include the General Fund, Police Fund, Mainland Fire Fund, Rubbish Collection Fund, and Harsen's Island Fire Fund. Both of the Township's Enterprise Funds are presented as major funds. The other supplemental information includes combining schedules that present the individual non-major funds.

The General Fund pays for most of the City's governmental services, with the exception of public safety and rubbish related costs. Police enforcement is recorded in the Police Fund and fire services are recorded in the Mainland Fire, Harsen's Island Fire, and Russell Island Fire Funds. The Township records rubbish collection costs and the related special assessment in the Rubbish Collection Fund. Police, fire, and rubbish services are supported by property taxes and/or special assessments.

Township of Clay

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

The Township did not amend the budget during the 2008 fiscal year. Total revenue was approximately \$242,000 more than expected as result of debt proceeds received related to the canal dredging special assessment and increased investment income. Actual General Fund expenditures were approximately even with the budget due to diligent monitoring of all expenditures.

Township Fund Financial Highlights

General Fund - The General Fund experienced an increase in fund balance of approximately \$276,000, compared to a decrease in 2007. Revenue in 2007 and 2008 was relatively constant. The significant difference in expenditures is primarily due to purchase of land in 2007.

Police Fund - The Police Fund experienced a change in fund balance that was approximately \$171,000 greater than in 2007. This increase was primarily due to an increase in property tax revenue, state grant revenue, and investment income.

Mainland Fire Fund - The Mainland Fire Fund experienced a change in fund balance that was consistent with prior year.

Harsen's Island Fire Fund - The Harsen's Island Fire Fund experienced a change in fund balance that was consistent with 2007. Also, the Harsen's Island Fire Fund received debt proceeds of \$45,000 for the purchase of fire equipment.

Rubbish Collection Fund - The Rubbish Collection Fund experienced a change in fund balance that was approximately \$25,000 less than in 2007. This is primarily due to an increase in costs to the Township.

Water Fund - The Water Fund experienced a decrease in net assets that was approximately \$377,000 less than in 2007. This decrease was primarily due to an increase in user charges and debt service charge.

Sewer Fund - The Sewer Fund experienced a decrease in net assets that was approximately \$78,000 less than the prior year. This decrease in loss was primarily due to a reduction in total recurring expenditures by approximately 5 percent from the prior year, due to continued focus on reducing costs by the board, and increased user charges and investment income.

Township of Clay

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

As the State of Michigan continues to look for solutions to significant structural budget problems, revenue sharing continues to be under attack. Our community continues to weather the cuts in state-shared revenue in part due to very positive conservative actions of previous boards. In addition, the Township is no longer receiving statutory revenue-sharing payments, which is the portion that has experienced drastic cuts in past years. Our current board continues the conservative example of previous boards, while always keeping our obligations to current and future residents as our beacon. Our community continues to grow, and we use our strategic future forecasts to plan for and budget for future needs.

We anticipate that the water and sewer rates will increase in 2009. We are in the process of evaluating the amount of increase that will be needed, and have begun implementing some increases beginning on July 1, 2008.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Township of Clay

Statement of Net Assets June 30, 2008

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash (Note 3)	\$ 4,732,952	\$ 560,531	\$ 5,293,483	\$ 552,089
Accounts receivable:				
Customer	19,663	432,606	452,269	-
Special assessments and other	399,907	1,514,161	1,914,068	-
Due from other governmental units	281,866	-	281,866	-
Inventories	-	97,251	97,251	-
Prepaid service contracts (Note 1)	-	4,141,298	4,141,298	-
Restricted assets (Note 8)	-	2,191,720	2,191,720	-
Capital assets (Note 5):				
Nondepreciable	725,000	32,562	757,562	168,745
Depreciable - Net	4,646,872	16,641,112	21,287,984	-
Total assets	10,806,260	25,611,241	36,417,501	720,834
Liabilities				
Accounts payable	68,623	133,828	202,451	33,046
Accrued and other liabilities	64,356	89,624	153,980	-
Performance bonds and deposits	84,375	-	84,375	-
Noncurrent liabilities (Note 7):				
Due within one year	237,697	782,341	1,020,038	-
Due in more than one year	1,617,925	8,793,216	10,411,141	-
Total liabilities	2,072,976	9,799,009	11,871,985	33,046
Net Assets				
Invested in capital assets - Net of related debt	3,516,250	10,486,083	14,002,333	168,745
Restricted:				
Law enforcement	868,012	-	868,012	-
Fire services	426,687	-	426,687	-
Rubbish collection	121,839	-	121,839	-
911 operations	159,721	-	159,721	-
D.A.R.E. operations	645	-	645	-
Street lighting	1,372	-	1,372	-
Road maintenance	56,318	-	56,318	-
Bond ordinance reserve	-	1,669,573	1,669,573	-
Equipment replacement reserve	-	375,756	375,756	-
Unrestricted	3,582,440	3,280,820	6,863,260	519,043
Total net assets	<u>\$ 8,733,284</u>	<u>\$ 15,812,232</u>	<u>\$ 24,545,516</u>	<u>\$ 687,788</u>

Township of Clay

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and	and
			Contributions	Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 1,063,392	\$ 38,086	\$ -	\$ -
Public safety	2,260,531	141,899	77,991	147,478
Public works	932,898	708,666	5,783	-
Community and economic development	36,643	5,129	-	-
Recreation and culture	50,000	-	45,589	-
Interest on long-term debt	82,886	-	-	-
Total governmental activities	4,426,350	893,780	129,363	147,478
Business-type activities:				
Water	1,780,591	1,467,429	-	28,950
Sewer	718,069	494,964	-	2,700
Total business-type activities	2,498,660	1,962,393	-	31,650
Total primary government	<u>\$ 6,925,010</u>	<u>\$ 2,856,173</u>	<u>\$ 129,363</u>	<u>\$ 179,128</u>
Component Unit - Downtown Development Authority	<u>\$ 104,303</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:
 Property taxes
 State-shared revenues
 Unrestricted investment earnings
 Cable franchise fees
 Miscellaneous

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

Statement of Activities Year Ended June 30, 2008

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (1,025,306)	\$ -	\$ (1,025,306)	\$ -
(1,893,163)	-	(1,893,163)	-
(218,449)	-	(218,449)	-
(31,514)	-	(31,514)	-
(4,411)	-	(4,411)	-
(82,886)	-	(82,886)	-
(3,255,729)	-	(3,255,729)	-
-	(284,212)	(284,212)	-
-	(220,405)	(220,405)	-
-	(504,617)	(504,617)	-
(3,255,729)	(504,617)	(3,760,346)	-
-	-	-	(104,303)
2,976,152	-	2,976,152	358,167
677,047	-	677,047	-
205,340	284,327	489,667	14,240
60,676	-	60,676	-
7,817	-	7,817	-
3,927,032	284,327	4,211,359	372,407
671,303	(220,290)	451,013	268,104
8,061,981	16,032,522	24,094,503	419,684
\$ 8,733,284	\$ 15,812,232	\$ 24,545,516	\$ 687,788

Township of Clay

Governmental Funds Balance Sheet June 30, 2008

	Major Special Revenue Funds					Other Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Police	Mainland Fire	Rubbish Collection	Harsen's Island Fire		
Assets							
Cash (Note 3)	\$ 2,613,350	\$ 915,952	\$ 360,403	\$ 129,867	\$ 70,425	\$ 642,955	\$ 4,732,952
Special assessments receivable	132,361	-	-	-	-	267,546	399,907
Customer receivable	19,663	-	-	-	-	-	19,663
Due from other governmental units	263,443	18,423	-	-	-	-	281,866
Advance to other fund (Note 6)	94,038	-	-	-	-	-	94,038
Total assets	\$ 3,122,855	\$ 934,375	\$ 360,403	\$ 129,867	\$ 70,425	\$ 910,501	\$ 5,528,426
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 19,639	\$ 27,795	\$ 5,498	\$ 8,028	\$ 7,446	\$ 217	\$ 68,623
Accrued and other liabilities	3,044	5,109	241	-	-	-	8,394
Performance bonds and deposits	84,375	-	-	-	-	-	84,375
Deferred revenue (Note 4)	132,361	-	-	-	-	267,546	399,907
Advance from other fund (Note 6)	-	94,038	-	-	-	-	94,038
Total liabilities	239,419	126,942	5,739	8,028	7,446	267,763	655,337
Fund Balances							
Reserved for:							
Noncurrent receivable from Police Fund	94,038	-	-	-	-	-	94,038
911 operations	-	159,721	-	-	-	-	159,721
Unreserved - Undesignated	2,789,398	647,712	354,664	121,839	62,979	-	3,976,592
Unreserved - Reported in:							
Nonmajor Special Revenue Funds	-	-	-	-	-	167,948	167,948
Nonmajor Capital Project Fund	-	-	-	-	-	474,790	474,790
Total fund balances	2,883,436	807,433	354,664	121,839	62,979	642,738	4,873,089
Total liabilities and fund balances	\$ 3,122,855	\$ 934,375	\$ 360,403	\$ 129,867	\$ 70,425	\$ 910,501	\$ 5,528,426
Fund Balance - Total governmental funds							\$ 4,873,089
Amounts reported for governmental activities in the statement of net assets are different because:							
Capital assets used in governmental activities are not financial resources and are not reported in the funds							5,371,872
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures							399,907
Accrued interest payable on long-term debt is not recorded in the funds							(50,195)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:							
Notes payable							(1,855,622)
Compensated absences							(5,767)
Net assets of governmental activities							\$ 8,733,284

Township of Clay

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

	Major Special Revenue Funds						Total Governmental Funds
	General Fund	Police	Mainland Fire	Rubbish Collection	Harsen's Island Fire	Other Nonmajor Governmental Funds	
Revenue							
Property taxes	\$ 435,418	\$ 1,973,335	\$ 375,279	\$ -	\$ 186,291	\$ 5,829	\$ 2,976,152
Licenses and permits	80,407	-	-	-	-	-	80,407
Intergovernmental revenue:							
Local sources	45,589	-	-	-	-	-	45,589
State sources	677,047	65,456	-	-	-	-	742,503
Federal sources	-	1,637	12,968	-	78,786	-	93,391
Charges for services	100,995	17,676	-	-	-	33,650	152,321
Investment income	118,187	36,088	16,426	1,245	3,961	29,540	205,447
Fines and forfeitures	-	22,321	-	-	-	-	22,321
Special and maintenance assessment	66,350	-	-	554,810	-	80,903	702,063
Other	21,298	34,739	3,868	918	1,720	2,250	64,793
Total revenue	1,545,291	2,151,252	408,541	556,973	270,758	152,172	5,084,987
Expenditures							
Current services:							
General government	1,310,983	-	-	-	-	-	1,310,983
Police	-	1,699,508	-	-	-	-	1,699,508
Mainland Fire	-	-	232,995	-	-	-	232,995
Rubbish collection	-	-	-	531,476	-	-	531,476
Harsen's Island Fire	-	-	-	-	118,758	-	118,758
Oaklawn Cemetery	-	-	-	-	-	32,263	32,263
Special lighting	-	-	-	-	-	1,259	1,259
Road maintenance	-	-	-	-	-	28,938	28,938
Russell Island Fire	-	-	-	-	-	3,868	3,868
Capital outlay	-	48,564	46,384	-	125,587	-	220,535
Debt service	75,771	-	46,241	-	64,966	117,168	304,146
Total expenditures	1,386,754	1,748,072	325,620	531,476	309,311	183,496	4,484,729
Excess of Revenue Over (Under)							
Expenditures	158,537	403,180	82,921	25,497	(38,553)	(31,324)	600,258
Other Financing Sources (Uses)							
Proceeds from debt	117,600	-	-	-	45,000	-	162,600
Transfers in	-	-	-	-	-	10,207	10,207
Transfers out	-	-	-	-	-	(10,207)	(10,207)
Total other financing sources	117,600	-	-	-	45,000	-	162,600
Net Change in Fund Balances	276,137	403,180	82,921	25,497	6,447	(31,324)	762,858
Fund Balances - Beginning of year	2,607,299	404,253	271,743	96,342	56,532	674,062	4,110,231
Fund Balances - End of year	\$ 2,883,436	\$ 807,433	\$ 354,664	\$ 121,839	\$ 62,979	\$ 642,738	\$ 4,873,089

Township of Clay

Governmental Funds **Reconciliation of the Statement of Revenue, Expenditures,** **and Changes in Fund Balances of Governmental Funds to the** **Statement of Activities** **Year Ended June 30, 2008**

Net Change in Fund Balances - Total Governmental Funds	\$	762,858
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation		233,678
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Donated assets do not provide current financial resources and are therefore not recorded in governmental funds; in the statement of activities, these donations are recorded as capital contributions		55,724
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Depreciation is recorded as an expense in the statement of activities but not in the governmental funds		(436,307)
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Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end		5,685
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Proceeds from the issuance of debt is revenue in the governmental funds, but not in the statement of activities (where it increases long-term debt)		(162,600)
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		220,580
---	--	---------

Loss on sale of fixed assets is calculated based on the net book value of assets sold in the statement of activities; the proceeds from these sales are recorded as income in the governmental funds		(8,795)
--	--	---------

Changes in accumulated employee vacation pay are recorded when earned in the statement of activities		(200)
--	--	-------

Interest expense is recorded when incurred in the statement of activities		680
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Change in Net Assets of Governmental Activities	\$	<u>671,303</u>
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Township of Clay

Proprietary Funds Statement of Net Assets June 30, 2008

	Enterprise Funds		
	Water	Sewer	Total
Assets			
Current assets:			
Cash (Note 3)	\$ 481,947	\$ 78,584	\$ 560,531
Customer receivables	258,086	174,520	432,606
Current portion of special assessments	146,308	-	146,308
Due from other funds	-	711	711
Inventories	78,469	18,782	97,251
Prepaid service contracts - Current portion (Note 1)	149,669	-	149,669
Total current assets	1,114,479	272,597	1,387,076
Noncurrent assets:			
Restricted assets (Note 8)	375,756	1,815,964	2,191,720
Special assessments receivable	1,367,853	-	1,367,853
Prepaid service contracts (Note 1)	3,991,629	-	3,991,629
Capital assets (Note 5):			
Nondepreciable	-	32,562	32,562
Depreciable - Net	9,571,451	7,069,661	16,641,112
Total noncurrent assets	15,306,689	8,918,187	24,224,876
Total assets	16,421,168	9,190,784	25,611,952
Liabilities			
Current liabilities:			
Accounts payable	87,542	46,286	133,828
Accrued and other liabilities	78,699	-	78,699
Due to other funds	711	-	711
Current portion of long-term debt (Note 7)	646,875	-	646,875
Total current liabilities	813,827	46,286	860,113
Current liabilities payable from restricted assets	-	146,391	146,391
Long-term debt - Net of current portion (Note 7)	7,655,625	1,137,591	8,793,216
Total liabilities	8,469,452	1,330,268	9,799,720
Net Assets			
Invested in capital assets - Net of related debt	4,521,451	5,964,632	10,486,083
Bond ordinance reserve	-	1,669,573	1,669,573
Equipment replacement reserves	375,756	-	375,756
Unrestricted	3,054,509	226,311	3,280,820
Total net assets	\$ 7,951,716	\$ 7,860,516	\$ 15,812,232

Township of Clay

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2008

	Enterprise Funds		
	Water	Sewer	Total
Operating Revenue			
User charges	\$ 967,106	\$ 494,964	\$ 1,462,070
Tap-in fees	32,817	-	32,817
Hydrant rental	24,080	-	24,080
Other operating income	81,707	-	81,707
Total operating revenue	1,105,710	494,964	1,600,674
Operating Expenses			
Cost of water and sewage disposal	419,767	181,678	601,445
Salaries and wages	193,601	94,500	288,101
Fringe benefits	225,608	-	225,608
Meters, tools, and supplies	36,989	6,100	43,089
Administration fee	35,000	-	35,000
Utilities	25,656	10,259	35,915
Repairs and maintenance	9,667	5,559	15,226
Depreciation and amortization	425,959	316,344	742,303
Other operating expenses	87,918	43,527	131,445
Total operating expenses	1,460,165	657,967	2,118,132
Operating Loss	(354,455)	(163,003)	(517,458)
Nonoperating Revenue (Expenses)			
Investment income	171,764	112,563	284,327
Interest expense	(320,426)	(60,102)	(380,528)
Debt service charges	361,719	-	361,719
Total nonoperating revenue	213,057	52,461	265,518
Net Loss - Before capital contributions	(141,398)	(110,542)	(251,940)
Capital Contributions	28,950	2,700	31,650
Change in Net Assets	(112,448)	(107,842)	(220,290)
Net Assets - Beginning of year	8,064,164	7,968,358	16,032,522
Net Assets - End of year	<u>\$ 7,951,716</u>	<u>\$ 7,860,516</u>	<u>\$ 15,812,232</u>

Township of Clay

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2008

	Enterprise Funds		
	Water	Sewer	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 911,470	\$ 497,404	\$ 1,408,874
Payments to suppliers	(597,962)	(257,365)	(855,327)
Payments to employees	(419,209)	(94,500)	(513,709)
Other receipts	81,707	40	81,747
Net cash (used in) provided by operating activities	(23,994)	145,579	121,585
Cash Flows from Capital and Related Financing Activities			
Collection of customer assessments (principal)	287,297	2,700	289,997
Collection of debt service charge	361,719	-	361,719
Purchase of capital assets	(12,431)	-	(12,431)
Principal and interest paid on capital debt	(974,189)	(190,843)	(1,165,032)
Net cash used in capital and related financing activities	(337,604)	(188,143)	(525,747)
Cash Flows from Investing Activities - Interest received on investments	171,764	112,563	284,327
Net Increase (Decrease) in Cash and Cash Equivalents	(189,834)	69,999	(119,835)
Cash and Cash Equivalents - Beginning of year	1,047,537	1,788,803	2,836,340
Cash and Cash Equivalents - End of year	<u>\$ 857,703</u>	<u>\$ 1,858,802</u>	<u>\$ 2,716,505</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and cash equivalents	\$ 481,947	\$ 78,584	\$ 560,531
Restricted assets (Note 8)	375,756	1,780,218	2,155,974
Total cash and cash equivalents	<u>\$ 857,703</u>	<u>\$ 1,858,802</u>	<u>\$ 2,716,505</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (354,455)	\$ (163,003)	\$ (517,458)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation and amortization	425,959	316,344	742,303
Changes in assets and liabilities:			
Receivables	(112,533)	2,480	(110,053)
Inventories	(4,133)	(686)	(4,819)
Accounts payable	21,168	(9,556)	11,612
Net cash (used in) provided by operating activities	<u>\$ (23,994)</u>	<u>\$ 145,579</u>	<u>\$ 121,585</u>

Noncash Investing, Capital, and Financing Activities - There were no significant noncash investing, capital, or financing activities during the year.

Township of Clay

Fiduciary Funds Statement of Net Assets June 30, 2008

	Employee Health Care Fund	Agency Fund
Assets		
Cash (Note 3)	\$ -	\$ 217,388
Investments - Tax-deferred annuities (Note 3)	400,013	-
Total assets	400,013	<u>\$ 217,388</u>
Liabilities		
Accrued and other liabilities	-	\$ 11,411
Due to other governmental units	-	14,891
Performance bonds and deposits	-	191,086
Total liabilities	-	<u>\$ 217,388</u>
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 400,013</u>	

Township of Clay

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2008

	Trust Fund - Employee Health Care Fund
Additions	
Contributions	\$ 110,000
Investment Income	<u>31,210</u>
Total additions	141,210
Deductions - Transfer to multiemployer trust	<u>154,444</u>
Net Decrease	(13,234)
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>413,247</u>
End of year	<u><u>\$ 400,013</u></u>

Township of Clay

Component Unit Statement of Net Assets June 30, 2008

	Downtown Development Authority
Assets	
Cash (Note 3)	\$ 552,089
Capital assets - Nondepreciable	<u>168,745</u>
Total assets	<u>\$ 720,834</u>
Liabilities - Accounts payable	\$ 33,046
Net Assets	
Invested in capital assets - Net of related debt	168,745
Unrestricted	<u>519,043</u>
Total net assets and liabilities	<u>\$ 720,834</u>

Township of Clay

Component Unit Statement of Activities Year Ended June 30, 2008

			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Program Revenues Charges for Services	Total
Downtown Development Authority - Community and economic development	<u>\$ 104,303</u>	<u>\$ -</u>	\$ (104,303)
General revenues:			
Property taxes			358,167
Unrestricted investment earnings			<u>14,240</u>
Total general revenues			<u>372,407</u>
Change in Net Assets			268,104
Net Assets - Beginning of year			<u>419,684</u>
Net Assets - End of year			<u>\$ 687,788</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the Township of Clay (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

Reporting Entity

The Township is governed by an elected seven-member board of trustees. The accompanying financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the Township's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Township (see discussion below for description).

Blended Component Units - The Clay Township Building Authority is governed by a board that is appointed by the board of trustees. Although it is legally separate from the Township, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the Township's public buildings. There was no activity in the Building Authority during the 2008 fiscal year.

Discretely Presented Component Unit - The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the board of trustees. In addition, the Authority's budget is subject to approval by the board of trustees. Complete financial statements can be obtained from Township of Clay at 4710 Pointe Tremble Road, Algonac, Michigan 48001.

Harsen's Island Transportation Authority - The Harsen's Island Transportation Authority was created to assist the transportation of people and goods between the mainland and Harsen's Island. The governing body, which consists of five individuals, is selected by the Township board of trustees. In addition, any budgets of the Authority will be subject to approval by the board of trustees. As of this date, the Authority has not begun any financial activities.

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note I - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Clay Township Police Fund - The Clay Township Police Fund is used to account for the operations of law enforcement activity in the Township. Funding is provided primarily through a local property tax levy.

Mainland Fire Fund - The Mainland Fire Fund is used to account for the operations of firefighting activity in the Township. Funding is provided primarily through a local property tax levy.

Rubbish Collection Fund - The Rubbish Collection Fund accounts for the operations of the refuse disposal activities of the Township. Funding is provided primarily through special assessment.

Harsen's Island Fire Fund - The Harsen's Island Fire Fund is used to account for the operations of firefighting activity on Harsen's Island. Funding is provided primarily through a local property tax levy.

Note 1 - Summary of Significant Accounting Policies (Continued)

The Township reports the following major proprietary funds:

Water Fund - The Water Fund accounts for the activities of the water distribution system. Funding is provided primarily through user charges.

Sewer Fund - The Sewer Fund accounts for the activities of the sewage collection system. Funding is provided primarily through user charges.

Additionally, the Township reports the following fund types:

Other Employee Benefits Trust Fund - The Other Employee Benefits Trust Fund accounts for the activities of the employee benefit plan, which accumulates resources for other postemployment benefit payments to qualified employees.

Agency Funds - The Agency Fund accounts for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Note I - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2007 tax is levied and collectible on December 1, 2007 and is recognized as revenue in the year ended June 30, 2008, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2007 taxable valuation of the Township was approximately \$458 million for operations, \$452 million for police services, \$334 million for Mainland fire services, \$124 million for Harsen's Island fire services, and \$6 million for Russell Island fire services (a portion of which is captured by the DDA for the operations and police). Taxes levied consisted of .5580 mills for operating purposes, 4.35 mills for police services, 1.125 mills for Mainland fire services, 1.500 mills for Harsen's Island fire services, and .900 mills for Russell Island fire services. This resulted in approximately \$253,000 for operating, \$1,973,000 for police services, \$375,000 for Mainland fire services, \$186,000 for Harsen's Island fire services, and \$6,000 for Russell Island fire services. These amounts are recognized in the respective General and Special Revenue Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from all funds is generally allocated to each fund based on relative participation in the pool, except that Agency Funds investment earnings are allocated to the General Fund.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Note I - Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Prepaid Service Contracts - Prepaid service contracts represent the Township's portion of various upgrades made to the City of Algonac's water plant for which the Township has no direct ownership interest. Payments are amortized over the deemed life of the water service contract with the City of Algonac and are recorded as depreciation expense.

Restricted Assets - The Township has contracts with the City of Algonac to set amounts aside in the Water Fund for maintenance, repair, and equipment replacement of the water system. The sewer ordinance requires amounts to be set aside for debt service on sewer system debt, and maintenance, repair, and equipment replacement of the sewer system. Amounts on deposit at the County are being held for the construction of the Township's sewer lines.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., sidewalks and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Assets are depreciated using the straight-line method over the following useful lives:

Infrastructure	20 years
Underground mains	50 years
Sewage treatment plant	50 years
Buildings and building improvements	20 to 50 years
Vehicles and equipment	3 to 20 years
Furniture and fixtures	7 to 20 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Township does not have a policy to pay any amounts when employees separate from service with the Township. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Comparative Data - Comparative data is not included in the Township's financial statements.

Township of Clay

Notes to Financial Statements June 30, 2008

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - The annual budget is prepared by the Township supervisor and adopted by the Township board; subsequent amendments are approved by the Township board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2008 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, except that transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)." The budgetary comparison schedules (General Fund and Major Special Revenue Funds) are presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as adopted by the Township board is included in the required supplemental information.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Township incurred no expenditures that were in excess of the amount budgeted on the activity basis.

Construction Code Fees - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Beginning balance - Shortfall		\$ (677,226)
Building permit revenue		77,996
Related expenses:		
Direct costs	\$ 185,638	
Estimated indirect costs	<u>8,423</u>	
Total construction code expenses		<u>194,061</u>
Ending balance - Shortfall		<u>\$ (793,291)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes the Township to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Township is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Employee Health Care Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Township has designated one bank for the deposit of its funds.

The investment policy adopted by the board has authorized investments as listed in the State statutory authority as listed above.

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township's deposit balance of \$7,851,332 included \$7,621,332 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component unit's deposits had a bank balance of \$552,239, of which \$200,000 was covered by federal depository insurance and the remainder was uninsured.

Township of Clay

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township's investment policy does not further limit its investment choices.

At year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investments	Fair Value	Rating	Rating Organization
Tax-deferred annuities	\$ 400,013	AA-	Standard & Poor's

Concentration of Credit Risk - The Township places no limit on the amount the Township may invest in any one issuer. More than 5 percent of the Township's investments are in AmerUs 10-year Multi Choice Annuities.

Note 4 - Deferred Revenue

The governmental funds have reported \$399,907 of deferred revenue in connection with special assessment receivables that are not considered to be available to liquidate liabilities of the current period.

Township of Clay

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets

Capital asset activity of the Township's governmental, business-type, and component unit activities was as follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Governmental Activities				
Capital assets not being depreciated - Land	\$ 725,000	\$ -	\$ -	\$ 725,000
Capital assets being depreciated:				
Infrastructure	866,425	-	-	866,425
Buildings and improvements	4,048,922	29,000	-	4,077,922
Vehicles and equipment	3,687,234	260,402	20,523	3,927,113
Furniture and fixtures	64,995	-	-	64,995
Subtotal	8,667,576	289,402	20,523	8,936,455
Accumulated depreciation:				
Infrastructure	316,709	43,321	-	360,030
Buildings and improvements	1,610,996	109,453	-	1,720,449
Vehicles and equipment	1,910,114	278,967	11,728	2,177,353
Furniture and fixtures	27,185	4,566	-	31,751
Subtotal	3,865,004	436,307	11,728	4,289,583
Net capital assets being depreciated	4,802,572	(146,905)	8,795	4,646,872
Net capital assets	\$ 5,527,572	\$ (146,905)	\$ 8,795	\$ 5,371,872
Business-type Activities				
Water Fund				
Capital assets being depreciated:				
Underground mains	\$ 12,983,213	\$ -	\$ -	\$ 12,983,213
Buildings	250,000	-	-	250,000
Vehicles and equipment	279,685	12,431	-	292,116
Subtotal	13,512,898	12,431	-	13,525,329
Accumulated depreciation:				
Underground mains	3,351,579	254,248	-	3,605,827
Buildings	75,000	5,000	-	80,000
Vehicles and equipment	258,506	9,545	-	268,051
Subtotal	3,685,085	268,793	-	3,953,878
Net capital assets - Water Fund	9,827,813	(256,362)	-	9,571,451

Township of Clay

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets (Continued)

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Business-type Activities (Continued)				
Sewer Fund				
Capital assets not being depreciated - Land	\$ 32,562	\$ -	\$ -	\$ 32,562
Capital assets being depreciated:				
Underground mains	9,800,988	-	-	9,800,988
Sewage treatment plant	5,328,495	-	-	5,328,495
Buildings	257,950	-	-	257,950
Vehicles and equipment	122,770	-	-	122,770
Subtotal	15,510,203	-	-	15,510,203
Accumulated depreciation:				
Underground mains	5,784,139	195,695	-	5,979,834
Sewage treatment plant	2,169,135	106,738	-	2,275,873
Buildings	77,385	5,159	-	82,544
Vehicles and equipment	93,539	8,752	-	102,291
Subtotal	8,124,198	316,344	-	8,440,542
Net capital assets being depreciated	7,386,005	(316,344)	-	7,069,661
Net capital assets - Sewer Fund	7,418,567	(316,344)	-	7,102,223
Net business-type activity capital assets	<u>\$ 17,246,380</u>	<u>\$ (572,706)</u>	<u>\$ -</u>	<u>\$ 16,673,674</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 81,602
Public safety	309,856
Public works	20,681
Community and economic development	24,168
Total governmental activities	<u>\$ 436,307</u>
Business-type activities:	
Water	\$ 268,793
Sewer	316,344
Total business-type activities	<u>\$ 585,137</u>

Township of Clay

Notes to Financial Statements June 30, 2008

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
Sewer Fund	Water Fund	\$ 711

Advance To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Police Fund	\$ 94,038

The balance due to the General Fund from the Police Fund results from the General Fund lending funds to the Police Fund for the construction of the police department building. There are no repayment terms established.

The details of the interfund transfer for the year ended June 30, 2008 are as follows:

Fund Transferred From	Fund Transferred To	Amount
Drug Enforcement Fund	Drug Forfeiture Fund	\$ <u>10,207</u>

The above transfer from the Drug Enforcement Fund to the Drug Forfeiture Fund was from a grant received by the Drug Enforcement Fund for the Drug Forfeiture Fund.

Note 7 - Long-term Debt

The Township of Clay issues bonds to provide for the acquisition and construction of major capital facilities. County contractual agreements and installment purchase agreements are general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Township of Clay

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
Installment purchase agreements:							
Harsen's Island fire truck and rescue boat term note:		\$37,550 -					
Amount of issue: \$287,688	4.360%	\$46,621					
Maturing through 2010			\$ 134,022	\$ -	\$ 42,756	\$ 91,266	44,647
Mainland fire boat term note:		\$37,000					
Amount of issue: \$206,000	4.050%	\$45,000	128,814	-	40,901	87,913	42,820
Maturing through 2010							
2007 land purchase term note:		\$30,000 -					
Amount of issue: \$625,000	4.450%	\$50,000	625,000	-	40,308	584,692	32,005
Maturing through 2022							
Harsen's Island Mini-Pumper:		\$14,667 -					
Amount of issue: \$45,000	4.750%	\$15,491	-	45,000	14,644	30,356	14,865
Maturing through 2010							
Special assessment bonds:							
2000 Special Assessment Bonds:		\$70,000 -					
Amount of issue: \$1,360,000	5.10% -	\$75,000	930,000	-	70,000	860,000	70,000
Maturing through 2020	5.50%						
Other debt:							
Anchor Bay Canal Dredging:		\$21,389 -					
Amount of issue: \$117,600	4.750%	\$24,539	-	117,600	-	117,600	21,389
Maturing through 2012							
Dana Drain Special Assessment payable:		\$11,971					
Amount of issue: \$107,737	5.900%		95,766	-	11,971	83,795	11,971
Maturing through 2015							
Total governmental activities			<u>\$ 1,913,602</u>	<u>\$ 162,600</u>	<u>\$ 220,580</u>	<u>\$ 1,855,622</u>	<u>\$ 237,697</u>

Township of Clay

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
Water Fund							
Contractual obligations with St. Clair County:							
1998 Algonac Water Plant (through the Michigan Drinking Water Revolving Fund Program) Township portion is 62.5%							
Amount of issue: \$7,830,600	2.50%	\$218,750 -					
Maturing through 2020		\$302,500	\$ 3,480,625	\$ -	\$ 228,125	\$ 3,252,500	\$ 234,375
1999 Water System No. II-A (Refunding):							
Amount of issue: \$1,485,000	3.300% -	\$90,000 -					
Maturing through 2017	8.125%	\$110,000	995,000	-	95,000	900,000	95,000
Deferred amount on refunding			(82,500)	-	(7,500)	(75,000)	(7,500)
2002 Water Supply System No. II-A:							
Amount of issue: \$6,175,000	3.875% -	\$325,000					
Maturing through 2021	5.000%		4,550,000	-	325,000	4,225,000	325,000
Total Water Fund			8,943,125	-	640,625	8,302,500	646,875
Sewer Fund							
Contractual obligations with St. Clair County:							
1999 Sewage System No. I:							
Amount of issue: \$2,160,000	5.00% -	\$77,904 -					
Maturing through 2012	5.125%	\$101,708	488,945	-	90,888	398,057	95,216
2003 County Sewage Disposal System I Bonds:							
Amount of issue: \$3,000,000	3.375% -	\$33,250 -					
Maturing through 2023	4.600%	\$80,500	913,500	-	38,500	875,000	40,250
Total Sewer Fund			1,402,445	-	129,388	1,273,057	135,466
Total business-type activities			\$ 10,345,570	\$ -	\$ 770,013	\$ 9,575,557	\$ 782,341

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 237,697	\$ 88,988	\$ 326,685	\$ 782,341	\$ 358,022	\$ 1,140,363
2010	250,009	77,737	327,746	799,044	328,544	1,127,588
2011	140,357	66,145	206,502	807,958	298,311	1,106,269
2012	143,026	59,181	202,207	816,339	266,987	1,083,326
2013	150,817	51,966	202,783	732,125	234,763	966,888
2014-2018	601,397	161,382	762,779	3,683,375	744,652	4,428,027
2019-2023	332,319	28,215	360,534	1,954,375	129,780	2,084,155
Total	\$ 1,855,622	\$ 533,614	\$ 2,389,236	\$ 9,575,557	\$ 2,361,059	\$ 11,936,616

Township of Clay

Notes to Financial Statements June 30, 2008

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Business-type Activities		
	Water Fund	Sewer Fund	Total
Cash and investments:			
Contract with City of Algonac	\$ 52,854	\$ -	\$ 52,854
Equipment Replacement Fund	322,902	-	322,902
Bond ordinance requirement	-	1,780,218	1,780,218
Total cash and investments	375,756	1,780,218	2,155,974
Assets held at County	-	35,746	35,746
Total restricted assets	<u>\$ 375,756</u>	<u>\$ 1,815,964</u>	<u>\$ 2,191,720</u>

The contract with the City of Algonac and the Equipment Replacement Fund is restricted for maintenance, repair, and equipment replacement of the water system. The bond ordinance requirement is restricted for debt service on sewer debt and maintenance, repair, and equipment replacement of the sewer system. The assets held at the County for the Sewer Fund represent the Township's portion of the remaining cash maintained by the St. Clair County Department of Public Works for the 2003 St. Clair County Sewage Disposal System I bonds.

Note 9 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for workers' compensation and medical benefit claims and participates in the State Pool program of the Michigan Municipal Risk Management Authority for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The State Pool program of the Michigan Municipal Risk Management Authority risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

Note 10 - Defined Benefit Pension Plan

Plan Description - The Township participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers substantially all employees of the Township. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the Township's collective bargaining units and requires a contribution from the employees of 3.91 percent to 9.99 percent of gross wages.

Annual Pension Cost - For the year ended June 30, 2008, the Township's annual pension cost of \$214,035 for the plan was equal to the Township's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return and (b) projected salary increases of 4.5 percent to 12.9 percent per year. Both (a) and (b) include an inflation component of 3 percent to 4 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 28 years. The December 31, 2007 actuarial valuation reflects a prospective gradual reduction in the amortization period for open divisions from 30 years to 25 years.

Three-year Trend Information

	Fiscal Year Ended June 30		
	2008	2007	2006
Annual pension cost (APC)	\$ 214,035	\$ 194,877	\$ 224,062
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None

Township of Clay

Notes to Financial Statements June 30, 2008

Note 10 - Defined Benefit Pension Plan (Continued)

	Actuarial Valuation as of December 31		
	2007	2006	2005
Actuarial value of assets	\$ 3,657,727	\$ 3,312,400	\$ 2,934,270
Actuarial Accrued Liability (AAL)			
(entry age normal)	\$ 6,079,300	\$ 5,842,451	\$ 5,454,398
Unfunded AAL (UAAL)	\$ 2,421,573	\$ 2,530,051	\$ 2,520,128
Funded ratio	60%	57%	54%
Covered payroll	\$ 1,559,396	\$ 1,632,291	\$ 1,787,325
UAAL as a percentage of covered payroll	155%	155%	141%

Note 11 - Postemployment Benefits

The Township provides healthcare benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, seven retirees are eligible. The Township includes pre-Medicare retirees and their dependents in its insured healthcare plan, with participants paying \$125 to cover spouses and 100 percent of dependent care cost. The Township purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$119,000.

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

Note 12 - Joint Ventures

The Township is a member of the Downriver Recreation Commission, which provides recreational services to the residents of the Township and the City of Algonac. The participating communities provide annual funding for its operations. During the current year, the Township contributed \$40,000 for its operations. The Township does not have an equity interest in the Commission. Complete financial statements for the Commission can be obtained from the administrative offices at Algonquin Junior High School, 9185 Marsh Road, Algonac, MI 48001. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating communities in the near future.

Note 13 - Uncertainty

Under an agreement with another municipality, the Township is required to restrict assets for equipment replacement on a shared water plant. The Township has calculated the restricted assets based on its original agreement. The Township is currently reviewing the original reserve requirements to determine if an adjustment is necessary.

Required Supplemental Information

Township of Clay

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 429,882	\$ 429,882	\$ 435,418	\$ 5,536
Licenses and permits	87,350	87,350	80,407	(6,943)
Intergovernmental revenue:				
State sources	667,127	667,127	677,047	9,920
Local sources	39,000	39,000	45,589	6,589
Charges for services	95,000	95,000	100,995	5,995
Investment income	66,242	66,242	118,187	51,945
Special and maintenance assessment	20,213	20,213	66,350	46,137
Other	16,500	16,500	21,298	4,798
Proceeds from debt	-	-	117,600	117,600
Total revenue	1,421,314	1,421,314	1,662,891	241,577
Expenditures				
Salaries:				
Supervisor	41,200	41,200	41,200	-
Clerk	56,270	56,270	56,270	-
Treasurer	54,063	54,063	54,063	-
Permanent employees	316,315	316,315	339,645	(23,330)
Fringe benefits	215,800	215,800	202,734	13,066
Township Board	10,000	10,000	10,312	(312)
Recreation	40,000	40,000	40,000	-
Board of Review	4,000	4,000	4,200	(200)
Commission fees	14,000	14,000	12,960	1,040
Elections	16,000	16,000	6,990	9,010
Office supplies	14,000	14,000	14,564	(564)
Postage	24,000	24,000	19,197	4,803
Gasoline and oil	2,500	2,500	1,354	1,146
Legal fees	18,000	18,000	21,532	(3,532)
Accounting and auditing fees	52,500	52,500	34,160	18,340
Consultant fees	10,000	10,000	983	9,017
Planning fees	15,000	15,000	9,975	5,025
Data processing	4,500	4,500	4,000	500
Telephone	10,500	10,500	6,861	3,639
Transportation	3,000	3,000	1,941	1,059
Advertising and publications	18,000	18,000	27,242	(9,242)
General and workers' compensation insurance	51,600	51,600	25,089	26,511

Note: The line-item budget information presented is for analytical purposes only. The official budget was adopted on an activity basis.

Township of Clay

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
Utilities	\$ 32,500	\$ 32,500	\$ 32,534	\$ (34)
Property maintenance	36,000	36,000	57,456	(21,456)
County road maintenance	138,355	138,355	61,369	76,986
Special assessment projects	-	-	117,586	(117,586)
Memberships and dues	9,500	9,500	13,980	(4,480)
Education and training	3,500	3,500	4,644	(1,144)
Transfer to library	10,000	10,000	10,000	-
Equipment rental	5,000	5,000	10,813	(5,813)
Equipment	15,000	15,000	8,187	6,813
Miscellaneous	36,388	36,388	20,856	15,532
Inspection fees	42,000	42,000	38,286	3,714
Debt service	57,996	57,996	75,771	(17,775)
Total expenditures	<u>1,377,487</u>	<u>1,377,487</u>	<u>1,386,754</u>	<u>(9,267)</u>
Excess of Revenue Over Expenditures	43,827	43,827	276,137	232,310
Fund Balance - Beginning of year	<u>2,607,299</u>	<u>2,607,299</u>	<u>2,607,299</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 2,651,126</u>	<u>\$ 2,651,126</u>	<u>\$ 2,883,436</u>	<u>\$ 232,310</u>

Note: The line-item budget information presented is for analytical purposes only. The official budget was adopted on an activity basis.

Township of Clay

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended June 30, 2008

	Clay Township Police Fund			Variance with
	Original	Amended		Amended
	Budget	Budget	Actual	Budget
Revenue				
Property taxes	\$ 1,973,327	\$ 1,973,327	\$ 1,973,335	\$ 8
Liquor license fee	9,300	9,300	9,518	218
Fines	18,500	18,500	22,321	3,821
Police reports	1,100	1,100	976	(124)
Dispatch fees	16,700	16,700	16,700	-
State training grant	42,000	42,000	55,938	13,938
Federal sources	-	-	1,637	1,637
Investment income	3,000	3,000	36,088	33,088
Other	22,600	26,905	34,739	7,834
Total revenue	2,086,527	2,090,832	2,151,252	60,420
Expenditures				
Contingency fund	21,966	21,966	18,575	3,391
Salaries and fringes	1,732,751	1,732,751	1,465,028	267,723
Legal fees	28,000	28,000	19,044	8,956
Insurance	65,000	65,000	33,679	31,321
Facility	25,100	25,100	22,351	2,749
Vehicles, equipment operation, and maintenance	78,950	78,950	66,147	12,803
Capital outlay	52,000	56,305	48,564	7,741
Other administrative fees	82,760	82,760	74,684	8,076
Total expenditures	2,086,527	2,090,832	1,748,072	342,760
Excess of Revenue Over Expenditures	-	-	403,180	403,180
Fund Balance - Beginning of year	404,253	404,253	404,253	-
Fund Balance - End of year	<u>\$ 404,253</u>	<u>\$ 404,253</u>	<u>\$ 807,433</u>	<u>\$ 403,180</u>

Note: The line-item budget information presented is for analytical purposes only. The official budget was adopted on an activity basis.

Township of Clay

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2008

	Mainland Fire Fund			
	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 375,276	\$ 375,276	\$ 375,279	\$ 3
Federal sources	-	-	12,968	12,968
Investment income	3,000	3,000	16,426	13,426
Other	4,500	4,500	3,868	(632)
Total revenue	382,776	382,776	408,541	25,765
Expenditures				
Wages and fringes	149,715	149,715	135,653	14,062
Other current services	136,056	136,056	97,342	38,714
Capital outlay	35,600	35,600	46,384	(10,784)
Debt service	46,242	46,242	46,241	1
Total expenditures	367,613	367,613	325,620	41,993
Excess of Revenue Over Expenditures	15,163	15,163	82,921	67,758
Fund Balances - Beginning of year	271,743	271,743	271,743	-
Fund Balances - End of year	<u>\$ 286,906</u>	<u>\$ 286,906</u>	<u>\$ 354,664</u>	<u>\$ 67,758</u>

Note: The line-item budget information presented is for analytical purposes only. The official budget was adopted on an activity basis.

Township of Clay

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2008

	Rubbish Collection Fund			Variance with
	Original Budget	Amended Budget	Actual	Amended Budget
Revenue				
Investment income	\$ 1,000	\$ 1,000	\$ 1,245	\$ 245
Special assessment	554,810	554,810	554,810	-
Other	1,000	1,000	918	(82)
Total revenue	556,810	556,810	556,973	163
Expenditures				
Rubbish contract	486,197	486,197	519,971	(33,774)
Refund and other	10,000	10,000	11,505	(1,505)
Total expenditures	496,197	496,197	531,476	(35,279)
Excess of Revenue Over Expenditures	60,613	60,613	25,497	(35,116)
Fund Balances - Beginning of year	96,342	96,342	96,342	-
Fund Balances - End of year	<u>\$ 156,955</u>	<u>\$ 156,955</u>	<u>\$ 121,839</u>	<u>\$ (35,116)</u>

Note: The line-item budget information presented is for analytical purposes only. The official budget was adopted on an activity basis.

Township of Clay

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2008

	Harsen's Island Fire Fund			
	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 186,292	\$ 186,292	\$ 186,291	\$ (1)
Investment income	1,500	1,500	3,961	2,461
Federal sources	-	-	78,786	78,786
Proceeds from debt	-	-	45,000	45,000
Other	6,750	6,750	1,720	(5,030)
Total revenue	194,542	194,542	315,758	121,216
Expenditures - Current				
Harsen's Island Fire	114,558	114,558	118,758	(4,200)
Capital outlay	4,800	4,800	125,587	(120,787)
Debt service	65,182	65,182	64,966	216
Total expenditures	184,540	184,540	309,311	(124,771)
Excess of Revenue Over Expenditures	10,002	10,002	6,447	(3,555)
Fund Balances - Beginning of year	56,532	56,532	56,532	-
Fund Balances - End of year	<u>\$ 66,534</u>	<u>\$ 66,534</u>	<u>\$ 62,979</u>	<u>\$ (3,555)</u>

Note: The line-item budget information presented is for analytical purposes only. The official budget was adopted on an activity basis.

Other Supplemental Information

Township of Clay

	Nonmajor Special Revenue				
	D.A.R.E.	Drug Enforcement	Drug Forfeiture	Russell Island Fire	Oaklawn Cemetery
Assets					
Cash and investments	\$ 645	\$ 50,265	\$ 10,314	\$ 9,044	\$ 39,184
Special assessment receivable and other	-	-	-	-	-
Total assets	<u>\$ 645</u>	<u>\$ 50,265</u>	<u>\$ 10,314</u>	<u>\$ 9,044</u>	<u>\$ 39,184</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 217
Deferred revenue	-	-	-	-	-
Total liabilities	-	-	-	-	217
Fund Balances - Unreserved	<u>645</u>	<u>50,265</u>	<u>10,314</u>	<u>9,044</u>	<u>38,967</u>
Total liabilities and fund balances	<u>\$ 645</u>	<u>\$ 50,265</u>	<u>\$ 10,314</u>	<u>\$ 9,044</u>	<u>\$ 39,184</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008**

Capital Projects				
Funds			Fund	
Special Lighting	Road Maintenance	Explorer Program	Colony Road Assessment	Total Nonmajor Governmental Funds
\$ 1,372	\$ 56,318	\$ 1,023	\$ 474,790	\$ 642,955
-	-	-	267,546	267,546
\$ 1,372	\$ 56,318	\$ 1,023	\$ 742,336	\$ 910,501
\$ -	\$ -	\$ -	\$ -	\$ 217
-	-	-	267,546	267,546
-	-	-	267,546	267,763
1,372	56,318	1,023	474,790	642,738
\$ 1,372	\$ 56,318	\$ 1,023	\$ 742,336	\$ 910,501

Township of Clay

	Nonmajor Special Revenue				
	D.A.R.E.	Drug Enforcement	Drug Forfeiture	Russell Island Fire	Oaklawn Cemetery
Revenue					
Property taxes	\$ -	\$ -	\$ -	\$ 5,829	\$ -
Charges for services	-	-	-	-	33,650
Investment income (loss)	6	621	107	102	2,190
Special assessments	-	-	-	-	-
Other	-	-	-	-	2,250
Total revenue	6	621	107	5,931	38,090
Expenditures					
Current:					
Oaklawn Cemetery	-	-	-	-	32,263
Special lighting	-	-	-	-	-
Road maintenance	-	-	-	-	-
Russell Island Fire	-	-	-	3,868	-
Debt service	-	-	-	-	-
Total expenditures	-	-	-	3,868	32,263
Excess of Revenue Over (Under) Expenditures	6	621	107	2,063	5,827
Other Financing Sources - Transfers in	-	-	10,207	-	-
Other Financing Uses - Transfers out	-	(10,207)	-	-	-
Net Change in Fund Balances	6	(9,586)	10,314	2,063	5,827
Fund Balances - Beginning of year	639	59,851	-	6,981	33,140
Fund Balances - End of year	<u>\$ 645</u>	<u>\$ 50,265</u>	<u>\$ 10,314</u>	<u>\$ 9,044</u>	<u>\$ 38,967</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2008

Funds			Capital Projects Fund	Total Nonmajor Governmental Funds
Special Lighting	Road Maintenance	Explorer Program	Colony Road Assessment	
\$ -	\$ -	\$ -	\$ -	\$ 5,829
-	-	-	-	33,650
-	-	-	26,514	29,540
1,259	34,227	-	45,417	80,903
-	-	-	-	2,250
1,259	34,227	-	71,931	152,172
-	-	-	-	32,263
1,259	-	-	-	1,259
-	28,938	-	-	28,938
-	-	-	-	3,868
-	-	-	117,168	117,168
1,259	28,938	-	117,168	183,496
-	5,289	-	(45,237)	(31,324)
-	-	-	-	10,207
-	-	-	-	(10,207)
-	5,289	-	(45,237)	(31,324)
1,372	51,029	1,023	520,027	674,062
<u>\$ 1,372</u>	<u>\$ 56,318</u>	<u>\$ 1,023</u>	<u>\$ 474,790</u>	<u>\$ 642,738</u>

Township of Clay

**Report to the Board of Trustees
June 30, 2008**



Plante & Moran, PLLC
Suite 300
19176 Hall Road
Clinton Township, MI 48038
Tel: 586.416.4900
Fax: 586.416.4901
plantemoran.com

To the Board of Trustees
Township of Clay

We have recently completed our audit of the basic financial statements of the Township of Clay for the year ended June 30, 2008. In addition to our audit report, we are providing the following report on results of the audit process and informational comments which impact the Township.

	<u>Page</u>
Report on Internal Control	1-3
Report on Results of the Audit Process	4-7
Informational Comments	8

We are grateful for the opportunity to be of service to the Township of Clay. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

October 15, 2008

Report on Internal Control

October 15, 2008

To the Board of Trustees
Township of Clay

Dear Board Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the Township's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the Township of Clay as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and/or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

Accrual Adjustments

The elected officials of Clay Township and their staff maintain the books on a cash basis during the course of the year. If the Township's elected treasurer did not maintain the books throughout the year as she currently does, the Township would most likely need to hire a full-time degreed accountant to maintain the records. The Township treasurer has continued to assume increasing responsibilities for the calculating and posting of year-end accrual entries. The Township has enlisted our assistance in determining the remaining accrual adjustments to the accounting records at the end of the year. Accruals represent any adjustments other than cash that impact the accounting records (accounts payable, property tax and other receivables, capital assets, long-term debt, special assessments, etc.). Historically, the board has determined that the processes implemented by the Township result in the most cost-effective and value-added method of complying with the requirement for full-accrual statements, as the wages and fringe benefits associated with retaining an on-staff degreed accountant to evaluate all accrual adjustments has been weighed against the additional professional fees for this work. We are pleased to assist in this process as our staff have a high degree of expertise in accrual adjustments. However, we bring this to your attention since it meets the above definition of a matter to be communicated.

October 15, 2008

Bank Deposits

Due to unprecedented reductions in the value of the real properties, combined with the general overall negative state of the economy, the financial strength of many financial institutions has changed significantly during the past year. Historically, the investment policies of most municipalities have placed limited emphasis on the value of FDIC insurance coverage. We recommend that the Township review the financial status of its primary depository bank with representatives from that financial institution. Additionally, consideration should be given to the necessity of altering deposit practices in an effort to potentially increase the amount of deposits covered by the FDIC. An adjustment to past practices may result in the acceptance of a lower interest return in exchange for increased FDIC insurance coverage.

Secondary Reviews

Secondary reviews are an important control that can help to detect errors in a timely manner by providing a fresh look at the financial data. During the course of our current and prior year audits, we noted that secondary reviews are not regularly conducted of certain areas, such as payroll processing and bank reconciliations. We believe that a secondary review, including evidence through a sign-off and date of this procedure, by another member of Township management or board could help to identify errors in a timely manner and improve overall controls at the Township.

This communication is intended solely for the information and use of management, the board, and others within the Township and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank Connie Turner and Kathy Boughner, as well as all of the Clay Township personnel for their assistance during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

Plante & Moran, PLLC



Mark R. Hurst



Melissa L. Desmarais

Results of the Audit

October 15, 2008

To the Board of Trustees
Township of Clay

We have audited the financial statements of Township of Clay for the year ended June 30, 2008 and have issued our report thereon dated October 15, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 29, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Township of Clay. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 28, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Township of Clay are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

October 15, 2008

We noted no transactions entered into by the Township during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were those relating to restricted assets for equipment replacement in the Water Fund.

Management's estimate of the restricted assets is based on information provided by the legal counsel. We evaluated the key factors and assumptions used to develop the restricted asset in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following material misstatements detected as a result of audit procedures were corrected by management: correct postemployment benefit expense, correct state-shared revenue and receivable, record amortization of prepaid service contracts, and full accrual adjustments for long-term debt, capital assets, and deferred revenue.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

October 15, 2008

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated October 15, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

In the normal course of our professional association with the Township, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Township, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the Township's auditors.

Other Information in Documents Containing Audited Financial Statements

Our responsibility relates to the Township's financial statements and other information as identified in the auditor's report. We have no responsibility for any other information that may be included in documents containing those audited statements. We do not have an obligation to perform any procedures to corroborate other information contained in these documents.

This information is intended solely for the use of the board of trustees and management of Township of Clay and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Mark R Hurst



Melissa L. Desmarais

To the Board of Trustees
Township of Clay

October 15, 2008

Client: **Township of Clay**
Opinion Unit **Governmental Activities**
Y/E: **June 30, 2008**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

		Increases (Decreases)				
Ref. #	Description of Misstatement	Assets	Liabilities	Net Assets	Revenue	Expenses
Known Misstatements:						
AI	To record estimated equity interest in the Downriver Recreation Commission	\$ 4,755			\$ 4,755	
Estimate Adjustments:						
BI						
Implied Adjustments:						
CI						
		-	\$ -	\$ -	-	\$ -
	Combined effect	<u>\$ 4,755</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,755</u>	<u>\$ -</u>

Informational Comments

Water Fund

The Township board took appropriate action to increase water rates and other charges during the year ended June 30, 2008, and again for the year ended June 30, 2009. We commend the Township for implementing this important step toward addressing the immediate short-term cash flow needs of the Water Fund. We also encourage you to continue to monitor the cash flows of the Water Fund and plan for future needs.

In addition, it is our understanding that the Township has been notified by the City of Algonac suggesting that the required reserve related to the equipment replacement fund needs to be increased in the near future. We recommend that the board work with the Township attorney to take the necessary steps to reach an agreement with the City of Algonac in the near term.

Retiree Healthcare Benefits

As you are aware, the Governmental Accounting Standards Board released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree healthcare benefits. The intent of the new rules is to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid.

The statement will be effective for the Township's year ending June 30, 2010. The Township has proactively established a separate fiduciary fund to save money for this future expense. The Township has also begun to save for this future expense by transferring money to MERS for investment. Over a long period, this should reduce the burden of funding the retiree healthcare burden.

It is also our understanding that the Township has implemented changes in the Township's healthcare plans, which may impact the results of the required actuarial study. In anticipation of the required 2010 implementation date, the Township should now consider updating the actuarial valuation performed a couple of years ago.